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Nose In, Fingers Out

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“It is quite amazing how two people can read the same book and yet reach different conclusions.” —

Nitya Prakash

CONCLUSION

I started this dissertation by noting that although there has been an explosion of research on board-governance effectiveness over the past few decades, partly triggered by public outcry regarding major corporate scandals, most of these studies have built on agency theory and its associated prescriptions (e.g., Westphal & Zajac, 2013; Aguilera et al., 2016; Boivie et al., 2016). According to agency theory, boards are charged with the fiduciary responsibility to scrutinize managerial decision making and to critically evaluate managerial performance (see also Hillman & Dalziel, 2003; Westphal, 1999; Dalton & Dalton, 2011). It has been repeatedly argued that a board’s willingness to engage in such critical behaviors is related to director independence (Dalton & Dalton, 2011). In fact, for decades, director independence has been perceived as the *sine qua non* of board-governance effectiveness (Westphal & Zajac, 2013; Dalton & Dalton, 2011).

However, as noted, research on director independence has generally failed to find a systematic relationship between board independence and board-governance effectiveness (e.g., Dalton et al., 2007; Dalton & Dalton, 2011). In this respect, Boivie et al. (2016: 347) note that this might be because the focus of governance research on structural characteristics, such as board independence, has caused researchers to overlook the need for boards to function as groups. Accordingly, to advance our understanding of board functioning, I proposed that there is value in examining director behavior in a socially situated context and in integrating agency-theoretic insights with a more socialized perspective on boards. That is, by explicitly acknowledging that boards carry out their tasks towards top managers, the overarching research question of this dissertation was “what shapes director functioning within boards in carrying out their fiduciary duties (i.e., evaluating, advising and monitoring management)”.

To provide such a more fine-grained and integrated perspective on boards, I conducted three empirical studies. First, I examined how TMT tenure affects the two most important tasks of the board – monitoring and advice giving. I then integrated cognitive conflict research and research on board capital to study how the impact of TMT tenure may be shaped by both TMT-board cognitive conflict (i.e., task-related disagreement between the TMT and the board) and by the tenure of the board itself. An important premise in this respect was that whereas governance scholars and practitioners alike have generally advocated that boards should take a critical stance towards top managers, such a critical stance may differently affect board monitoring and advice giving, and its impact may depend on the tenure of the board itself.

Second, while governance researchers, following an agency-theoretic perspective, have repeatedly stressed the importance of boards critically evaluating TMT performance, to date, the potential affective consequences of such critical evaluation have received scant attention. In the second study, I therefore focused on TMT-board emotional conflict (i.e., emotional tensions between the TMT and the board) following TMT performance evaluation incongruence—those instances where the TMT perceives its performance to be better than the board. I also examined whether the gender makeup of the TMT and the board (i.e., the proportion of males in the TMT and the board) shape how those incongruent evaluations spiral into emotional conflict. In particular, while research on gender diversity has generally equated gender diversity with divergent views (Van Knippenberg et al., 2004; Pelled et al., 1999), the second study not only emphasized the importance of examining the *joint* impact of TMT and board gender composition on board-governance effectiveness, but also drew attention to what happens if demographically similar groups do not see eye to eye.

Finally, drawing on the status literature and research on job satisfaction, the third study was designed to examine when and why individual directors experience negative personal consequences from disagreeing with their CEO. That is, whereas the prevailing perspective on board-governance effectiveness holds that directors should critically question and challenge their CEO – precisely the behaviors deemed appropriate from an agency-theoretic perspective –, I examined why engaging in

such behaviors may actually undermine a director's status and satisfaction in serving on the board. Then, introducing an underexplored, yet very important, construct to the corporate governance literature, namely board psychological safety climate (i.e., a board climate in which directors are unlikely to be rejected for speaking up and discussing issues openly), I also focused on how these negative consequences are contingent on the board's psychological safety climate.

Accordingly, although the three empirical studies in this dissertation focus on different corporate governance issues, at different levels of analysis and draw from different theories, they all contextualize agency-theoretic insights on board-governance effectiveness with a more socialized perspective emphasizing the impact of a board's socially situated context. Below, I briefly summarize the main findings of the three studies.

Summary of the Main Findings

By explicitly acknowledging that boards carry out their monitoring and advisory tasks towards the TMT, Chapter 2 highlighted that board-governance effectiveness is jointly shaped by TMT *and* board structural characteristics as well as the interactions taking place between the TMT and the board. Regarding management-board interactions, the results in Chapter 2 demonstrated that while TMT-board cognitive conflict may indeed help the board to monitor high-tenured managers, it might also make it more difficult for the board to give advice to these managers. Furthermore, challenging the literature that implicitly equates high board tenure with a non-critical stance towards the TMT, an important conclusion in Chapter 2 was that while both high-tenured and low-tenured boards might be motivated to take a critical stance towards high-tenured managers, without an intimate understanding of the organization (i.e., low board tenure), a critical board is unlikely to be effective in performing its monitoring and advisory tasks.

The results presented in Chapter 3 showed that when TMTs' own performance evaluations exceed the board's evaluations, emotional conflict is likely to arise between the TMT and the board. Then, extending this baseline result, the study also demonstrated that emotional conflict is most likely

to occur between male-similar TMTs and boards (i.e., TMTs and board with both a high proportion of males). Additionally, supplemental analysis, conducted to establish the importance of TMT-board emotional conflict for board-governance effectiveness, showed that TMT-board emotional conflict increases the likelihood of directors leaving the board during their first-term period. As such, an important conclusion in Chapter 3 was that because evaluating TMT performance is an emotionally charged event that lies at the heart of board-governance effectiveness, more research on the affective consequences of such evaluations is highly warranted.

Finally, Chapter 4 showed that although directors are expected to critically question and challenge their CEO, these directors may, in fact, experience negative consequences to their status within the board and, therewith, their satisfaction in serving. Specifically, Chapter 4 demonstrated how the impact of individual directors' challenge is contingent on the board level phenomenon board psychologically safety; particularly in a psychologically unsafe climate, directors are likely to undermine their status and satisfaction with serving on the board when disagreeing with their CEO. An important conclusion in Chapter 4 therefore was that although governance scholars have stressed that directors add value to the firm to the extent that they take a critical stance towards the CEO, it is important that boards create a boardroom climate that is conducive to such critical views.

Overarching Conclusions

By explicitly considering management-board behavioral dynamics and directors' social surroundings, the three empirical chapters in this dissertation were well-positioned to complement the prevailing (under-socialized) perspective on board effectiveness. Specifically, two overarching conclusions can be drawn. First, this dissertation stresses the need for governance researchers to account for more than the monitoring function of boards. Specifically, whereas governance researchers have been mainly attuned to strengthening the monitoring task of the board, the role of the board as a provider of advice towards the TMT has, to date, received less attention (Dalton & Dalton, 2005; Tuggle et al., 2010; Baldenius et al., 2014). However, given that in reality boards both monitor *and* give advice to

managers, a dominant focus on board monitoring does not fully take into account the complexities involving board functioning. In this respect, Westphal (1999: 9) already noted that although the advice giving task has been recognized as an important form of board involvement, researchers neither have empirically modeled advisory relations nor examined sufficiently how social factors may influence the board's ability to exercise this task. Accordingly, this dissertation demonstrated that although boards taking a critical stance towards top management may help them to monitor (high-tenured) managers, it also undermines TMT-board advisory interactions and, therewith, may negatively affect board-governance effectiveness. By so doing, this dissertation constitutes a direct response to recent calls for governance researchers to pay more attention to the advice giving task of boards (Boivie et al., 2016; but see also Hillman & Dalziel, 2003).

Second, in the ongoing debate on what constitutes good corporate governance, corporate governance scholars, practitioners and the popular press have mainly echoed the view that boards should engage in a critical dialogue with top management (Boivie et al., 2016, Dalton & Dalton, 2011). As noted, the merit of boards being vigilant watchdogs that "bark when there are irregularities and lack of content" (Jonsson, 2005: 712) has been a leading factor in the global trend to increase the board's critical stance towards the TMT (Adams et al., 2010). Although this emphasis on board vigilance is intuitively appealing, this dissertation cautions that it may not necessarily play out well within the confines of the boardroom. Specifically, Chapter 2 showed that boards taking a critical stance towards the TMT might seriously undermine their advice giving task towards management, Chapter 3 demonstrated that boards critically evaluating TMT performance might result in emotional conflict between TMTs and boards and, finally, Chapter 4 showed that individual directors disagreeing with their CEO might actually undermine their status – and satisfaction – within psychologically unsafe boards. Each chapter therefore highlighted the importance of examining the socially situated context in which a board's critical stance might actually help or hurt board effectiveness. Thus, although I do not disagree with the merit of a constructive dialogue between TMTs and boards, I stress throughout

this dissertation that a critical stance towards top managers needs to be accompanied by a socially situated context that is conducive to such critical debate.

Practical Implications

The results presented in this dissertation offer several practical implications. First, Chapter 2 highlighted that the financial crisis of 2008 and numerous corporate scandals demonstrated that top managers did not always act in the best interest of the firm and that, therefore, governance reforms aiming to stimulate the board's critical stance towards the TMT were introduced in several countries. However, because governance reformers and regulators have mainly drawn from an agency-theoretic rationale (Cuomo et al., Zattoni, 2016), these reforms are predominantly attuned to strengthening board monitoring (Baldenius et al., 2014). Yet, given that in practice boards both monitor *and* give advice to TMTs, this dissertation stresses that best practices aimed to increase the monitoring task of boards should not be viewed in isolation from their effects on the board's advice giving task.

Furthermore, although corporate governance regulators, practitioners and the popular press have all strongly advocated that boards should take a critical stance towards TMTs, this dissertation challenges such a perspective on boards by showing that board criticism may have unintended consequences that could actually *reduce* rather than increase board effectiveness. In this respect, Chapter 2 demonstrated that it is important that boards do not *only* aim to be critical – particularly in dealing with high-tenured managers – but ought to consider other aspects that may influence their capital necessary to accurately perform their duties, such as their understanding of organizational affairs. This very much aligns with Roberts et al. (2005) who argue that a prerequisite for board members to be effective in questioning managers is to become knowledgeable of the company's people and business. As such, I stress in this dissertation that boards that are critical towards top management and, at the same time, possess an in-depth understanding of the organization are most likely to be effective.

An important practical contribution of Chapter 3 is that it showed that TMT performance evaluations can have unintended affective consequences that may very well harm board-governance effectiveness. As such, merely critically evaluating TMT performance and leaving managers on their own to “fix” the problems would be very much inadvisable (cf. Atwater et al., 2005). Instead, working with a management coach might help these managers to deal with the evaluations (Brett & Atwater, 2001; Nowack, 2009; Smither et al., 2005). Management coaches can help managers to reflect upon their emotional reactions and they can take steps to minimize management’s negative emotional reactions to performance evaluation incongruence (cf. Sargeant et al., 2008a; DeNisi & Kluger, 2000; Atwater & Brett, 2006). Furthermore, management coaches can help TMTs and boards to create a culture of openness that emphasizes that it does not matter which perspective is right; simply having gaps signals a possible disconnection with the board (cf. Sala, 2003).

In fact, Chapter 4 empirically demonstrated the importance of considering the culture within the board. Specifically, corporate governance reformers and practitioners have predominantly conceptualized the etiology of director functioning at the individual level by focusing on director independence or director skill and expertise (Hambrick et al., 2015; Hillman & Dalziel, 2003; Veltrop et al., 2018). It is somewhat surprising, therefore, that despite more normative assessments of its importance (e.g., Finkelstein & Mooney, 2003; Sonnenfeld, 2002), there is limited insight into how board-level factors, such as a board’s psychological safety climate, affect individual directors in serving on boards (Boivie et al., 2016; Hambrick et al., 2015). Chapter 4 aimed to address this disparity by highlighting that boards should cultivate a psychologically safe board climate that is open to, and tolerant of, CEO-director cognitive conflict; a psychologically safe boardroom climate enables and supports individual directors to perform their fiduciary responsibilities without experiencing negative personal consequences.

Limitations and Future Research Directions

This dissertation has a number of limitations that provide fertile ground for future research directions. First, I examined board functioning in organizations that all had a two-tier governance structure. While the results of this dissertation may therefore not be generalizable to organizations with a one-tier governance structure, it is important to note that one-tier and two-tier structures have converged in the past decades in the sense that supervisory board members in a two-tier structure and non-executive directors in a one-tier structure largely perform the same work (Westphal & Bednar, 2005; Hooghiemstra & van Manen, 2004; Veltrop et al., 2018). As such, although I encourage future research to replicate our studies within organizations with a one-tier governance structure, I expect that my results carry beyond this dissertation's research setting.

Despite the constraints on generalizability, as a suggestion for future research, I nevertheless also like to emphasize the value of conducting empirical research within two-tier governance structures. Specifically, most corporate governance research to date has been conducted in US-based organizations with one-tier governance structures. Given that this dissertation draws on a Dutch sample, it therewith complements the extent governance literature in important ways. For instance, while a great deal of US-based research has typically focused on the central role of the CEO, research increasingly acknowledges the influence of top management as a whole (see for example Finkelstein & Hambrick, 1990; Bergh, 2001; Herrmann & Datta, 2005). Indeed, central to Hambrick and Mason's (1984) notion of "upper echelons" is that CEOs do not make strategic choices on their own but, instead, that it is the team of top managers that bears responsibility for strategic decision making (see also Hambrick, 2007). Also other scholars suggest that it is time to look beyond the CEO and to pay attention to the role of the members of the so-called "C-suite" (Aguilera et al., 2016). Chapters 2 and 3 of this dissertation therefore explicitly considered the influence of top management as a whole instead of solely focusing on the impact of the CEO.

Second, given the difficulty of acquiring access to primary field data in the board context (Hillman et al., 2008), another limitation is that the studies were all cross-sectional. Although the

theoretical models in this dissertation imply a causal order, the cross-sectional data limit the ability to draw empirical conclusions about the direction of causality. Future corporate governance research may aim to gather survey data at multiple points in time and incorporate longitudinal designs to test for causal relationships. Relatedly, in Chapter 2, I was only able to measure static levels of TMT-board cognitive conflict. Although TMT-board cognitive conflict fosters task-focused discussions, it may also interfere with reaching consensus over time (Amason & Schweiger, 1994) and, therewith, may negatively influence board-governance effectiveness. Longitudinal studies that explore the time period in which these discussions occur, as well as the patterns of TMT-board cognitive conflict over time, will therefore potentially provide important insights, not only to research on board-governance effectiveness, but also to research on how conflict develops.

Third, the empirical studies in this dissertation all used archival sources of data as well as surveys to collect data. The reliance on surveys may have introduced common method variance (Podsakoff, MacKenzie, Lee & Podsakoff, 2003). Using different data collection methods (i.e., triangulation) to examine board-governance effectiveness would also result in a more robust and generalizable set of findings (i.e., higher external validity) and recommendations for governance researchers and practitioners that could be made with greater confidence (Scandura & Williams, 2000). I therefore encourage future researchers to also collect data using other methods, such as conducting interviews, observing board meetings or analyzing board minutes. In this respect, Tuggle, Sirmon, Reutzel and Bierman (2010) note that analyzing board minutes provides a fine-grained view of internal board meeting processes, allowing researchers to go beyond what boards look like to study what boards actually do (see also Pettigrew, 1992).

Fourth, this dissertation aimed to provide a more fine-grained and integrated perspective on board functioning. I therefore focused on different corporate governance issues and drew from different theories. Nevertheless, I limited the discussion to the determinants of board functioning, rather than discussing important consequences of reduced board effectiveness. However, reduced board effectiveness might have especially bad implications for organizations as well. For instance, if

TMT tenure limits board monitoring, this may not only influence board functioning – the focus of Chapter 2 – but may also have further implications, such as decreasing the overall performance of the organization (see also Shen, 2003). Similarly, from an organizational point of view, it is undesirable when individual directors experience lower satisfaction with serving on a board when they question and disagree with their CEO – precisely the behaviors deemed appropriate given their fiduciary responsibility to scrutinize managerial decision making. This is because satisfaction with work closely relates to general well-being, commitment, behaving ethically at work and actual turnover (Diekmann et al., 2007; Judge et al., 2017). An interesting avenue for future research therefore would be to broaden this dissertation's conceptual models to include important consequences of reduced board-governance effectiveness.

Fifth, this dissertation limited its discussion to a restricted number of variables. A limitation therefore is that there might be other (mediating or moderating) variables that may influence the theoretical models. For example, it might be interesting to also examine CEO status. In this respect, Park, Westphal and Stern (2011) demonstrated that high-status CEOs receive a remarkably high level of flattery from their fellow managers as well as from directors. High levels of flattery increased CEOs' overconfidence in their strategic judgements, which consequently reduced their willingness to initiate needed strategic changes (see also Westphal & Zajac, 2013). Similarly, it would be interesting to examine how the initial status levels of directors influence the consequences of losing status. In this respect, Marr and Thau (2014: 241) note that because high-ranking managers receive more respect than lower-status managers, they might very well come to depend on the respect they receive to maintain a positive self-image. As a consequence, they may experience a status loss as more self-threatening than managers with lower status rankings, which impairs their performance more in the aftermath of status loss.

Furthermore, this dissertation shows that dysfunctional behavioral dynamics within boards and between TMTs and boards are a major barrier to effective corporate governance. In this respect, it is interesting to note that the relevance of psychological safety is not yet fully recognized, despite

the emphasis in some of the recent corporate governance literature on the importance of acknowledging that directors are socially situated in a group of fellow directors. Nevertheless, although implicit, some researchers already hint at the importance of psychological safety for challenging managerial decision making and performance. For instance, Boivie et al. (2016) noted that governance researchers could explore if boards are able to create norms of openness where critical views can be expressed without retribution. As such, given its relevance to board functioning, future research on the impact of a psychologically safe board climate warrants further attention. For example, it would be interesting to examine how a board psychological safety develops. In this respect, Morrison, Wheeler-Smith and Kamdar (2011) indicate that the role of the chair is likely to play an essential role here, given that chairs can send strong signals about the consequences of speaking up and discussing issues openly.

Finally, I hope that although gaining access to boards to garner insight on board-governance effectiveness is difficult (Judge & Talaulicar, 2017), future research will continue to see the importance of incorporating primary information on the interactions and behavioral dynamics between TMTs and boards as well as within boards. I believe it would have been difficult to provide a fine-grained analysis of board functioning in this dissertation if I would not have had access to primary information.

Concluding Remarks

How can corporations be effectively governed? To date, much of the empirical literature examining board-governance effectiveness has focused on how independent directors can contribute to board effectiveness by exercising decision control over managerial decision making and performance (Westphal, 1999; Aguilera et al., 2016; Boivie et al., 2013). This dissertation complemented extant governance research by providing unique insights into management-board interactions and behavioral dynamics within the confines of the boardroom. Specifically, by applying insights from agency theory with a more socialized perspective on board-governance effectiveness, I highlighted the importance of considering the impact of a board's critical stance – a core agency theoretic solution to agency

problems – under the realistic condition that boards are socially embedded when performing their tasks.

So, is board-governance effectiveness a unicorn? This dissertation began by noting that major corporate scandals have thrust boards of directors into the forefront of discussions about what constitutes good corporate governance and that the question how corporations should be effectively governed has not been fully answered yet. To answer the question whether board-governance effectiveness is a unicorn or not, I like to end this dissertation with Dalton and Dalton (2005: S96) who noted, *“One need not search in vain for the magical forest where the mythical unicorn resides. One need only look to the many examples of boards whose members work diligently toward improving the companies they serve and enhancing shareholder value. Can corporate governance be further improved? Undoubtedly so. At the same time, let us not forget the successes in the shadow of a few notable failures”*.